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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 001264

SIPDIS

NEA FOR FRONT OFFICE AND NEA/IPA, NSC FOR SHAPIRO/KUMAR,
TREASURY FOR MOGER, JOINT STAFF FOR LTGEN SELVA. PLEASE
PASS TO USAID FOR ANE/MEA MCCLLOUD/BORODIN

E.O. 12958: DECL: 07/22/2019
TAGS: [ECON](#) [EAD](#) [PHUM](#) [PREL](#) [PTER](#) [KWBG](#) [IS](#) [KTFN](#)
SUBJECT: GAZA: TUNNEL ECONOMY FLOURISHES, THOUGH EGYPTIAN
EFFORTS NOTICED

REF: CAIRO 1377

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Classified By: DPO Greg Marchese for reasons 1.4 b, d.

11. (C) Summary. The tunnel trade into Gaza continues to flourish, although Gaza business contacts are alert to changes in Egyptian security practices and claim to notice some impact from Egyptian anti-smuggling efforts. ConGen contacts report that increasingly high-end, sophisticated products are available, but at higher prices. They claim that fewer, but larger, tunnels are operating today than was the case three months ago. Overall, the tunnel economy continues to be the most vibrant sector in Gaza. End Summary.

The Smugglers Will Find a Way

12. (C) Gaza business contacts -- some of whom participate directly in the tunnel trade -- claim to have noticed the effect of Egyptian efforts to interdict products heading for Gaza (reftel). They report fewer functioning tunnels than three months ago and say that prices have increased (though they all quote different costs associated with smuggling). Gaza businessmen say their Egyptian contacts report higher scrutiny and more paperwork requirements for products crossing the Suez Canal via the Mubarak Bridge.

13. (C) Gaza contacts claim Egyptian security officers still accept bribes, and say the smuggling regime -- made up of established families and foreigners -- finds creative ways to get around the system. One contact reported that merchants now use small boats to drop shipments into the sea and hire scuba divers to retrieve them. Another contact who imports fuel through the tunnels said he knows of Egyptian officers that double their salary from accepting bribes, and noted, "this money is hard to give up."

14. (C) Gaza business contacts claim the Egyptian Government will not enforce a total closure of the tunnels, even if it could, because of the potential blowback from being associated with Israel's closure regime. They note, however, that the Egyptians are prepared to block weapons, especially explosives, from reaching Gaza. One Gaza farmer told EconOff that, when he recently tried to order crop fertilizer through the tunnels, his Egyptian contact forcefully rQQZQW R2Q@nme for fertilizer or anything that can explode!"

15. (C) Gaza's reliance on the underground economy also appears to have expanded the reach of highly-abused drugs. Gaza contacts report that a painkiller called "Tramal" and counterfeit Viagra are currently the two most abused drugs in Gaza -- mostly by youth -- and are found in abundance there.

The Tunnel Business Matures

16. (C) Gaza contacts report the tunnels aI`#%`QqQOpQhn ever, resulting in greater quantities of higher-end products entering Gaza. Gaza businessmen report that the tunnel trade is sophisticated and responds to expected demand. They noted that refrigerators and air conditioners have become readily available for the summer. When school begins next month, "there will be backpacks, blue jeans, and school supplies throughout the Strip." A number of contacts report large motorcycles and disassembled cars have recently started coming through the tunnels.

17. (C) Gaza contacts say that because high-end products are entering Gaza, more and more educated Gazans -- engineers,

mechanics, computer programmers -- are hired to assemble products. A Gaza businessman told EconOff, "the tunnel economy is where the money is, so it attracts the best and brightest in Gaza." Gaza contacts also say the tunnel merchant class, mostly from Rafah, is quickly expanding its influence throughout Gaza. One contact said, "the only new computer and appliance stores in Gaza City are owned by Rafah families."

18. (C) Gaza businessmen report that Hamas continues to benefit directly or indirectly from all tunnel trade. They say tunnels are either Hamas-owned, Hamas-affiliated, or Hamas-taxed. Those tunnels that are Hamas-affiliated are owned by private merchants that import some products on behalf of Hamas. Private merchants not affiliated with Hamas are mandated to pay a percentage, such as 20 percent of their tunnel revenues, to an "unspecified charity," which,

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according to one Gaza contact, "is certainly going to Hamas coffers."
WALLES